EUROPEAN CENTRAL BANK

SUMMARY OF THE CONFERENCE ON ”E-PAYMENTS WITHOUT FRONTIERS”, HELD AT THE ECB, FRANKFURT AM MAIN, ON 10 NOVEMBER 2004

Executive Summary

The prospects for, and the challenges faced by, innovative e-payment services and the potential contribution of such services to European market integration were key features of the conference on “E-payments without frontiers” held by the ECB on 10 November 2004. The goal was to discuss recent findings and analysis in this field and to continue the dialogue between central banks and market participants on e-payment issues.

Participants from all 25 Member States were invited to the conference, so that almost all groups of stakeholders were represented: public authorities, consumers’ and merchants’ associations and, of course, central banks and financial institutions (representatives of the banking and card industries were present, as well as e-money institutions). Non-bank service providers attended, as well as payment experts in academia.

The relationship between *innovation* and *integration* was the guiding theme of all the sessions. The morning sessions were started with introductory statements by the ECB, followed by a session on demand factors (consumers’ and merchants’ views on how attractive the use of innovative e-payment solutions is) and by a session on challenges for e-payment service providers. Since there are large differences between countries in terms of the existing infrastructure and user habits, innovation varies in terms of form and speed; convergence is not feasible in all application areas. Gradual innovation often takes (modified) forms of traditional payment instruments. More “revolutionary” concepts – such as e-money or mobile payments – are appearing in some countries, but have thus far remained restricted to niche markets. Despite the to date modest success of the most innovative solutions, the overall electronification of the payment process is already well advanced in most countries of the EU.

Telecommunication companies, network providers and other non-banks are becoming increasingly active in the area of payment services. Nevertheless, banks are still central to both integration and the innovation process, and their progress in building a Single Euro Payments Area (SEPA) is paving the way for an enhanced usability of e-payment services across Europe.

As reflected in the presentations of the first afternoon session, security, fraud and identity protection issues represent permanent challenges for the industry and public authorities. In particular, the representative from Europol saw an urgent need for coordinated education programmes and enhanced cooperation between public authorities and providers.

A session on costs, pricing and efficiency was devoted to new approaches and investigations regarding relative prices and the costs of different payment instruments. An increasing number of central banks is active in this field. However, it remains difficult to gather consistent data on underlying cost structures at the business level (banks/service providers, merchants/users), or at an economic level (social costs and benefits), to analyse the logic behind pricing concepts and, even more so, to compare relative cost and charging structures across countries.

Issues related to the regulatory framework and to standards were discussed in the final panel. In this session, a lack of uniformity in the legal and regulatory environment, and in standards applied, for the Community was identified as a major issue. With respect to standards, the main challenge for market players was not necessarily the lack of them, since there were already many (as illustrated by the Chairman of the European Payments Council's Electronic Credit Transfers Working Group). It might be more essential to foster their enforcement and greater market discipline in their use. The European Commission's initiative regarding the New Legal Framework (NLF) for payment services plays a prominent role as a driver of change in the payments industry. Another critical area (that is also linked to the NLF) is the future scope and consistent regulation of e-money institutions.

Some of the major issues discussed at the conference were suitable for follow-up work, in particular "regulation of e-payments under the E-Money Directive" and "evolution, social cost and benefits of different payment instruments".

The presentations and statements are available in the "Events" sections of www.ecb.int and www.e-pso.info.

1 Introductory session by ECB

1.1 Gertrude Tumpel-Gugerell: Welcome address

With the invitation to this conference, the ECB wants to share its recent findings and analysis in the field of e-payments and to continue the dialogue between the Eurosystem and market participants. The ECB is particularly interested in learning about expectations on achieving more integration in the European e-payments market.

ECB observes that many innovative schemes focus on combining and interconnecting existing solutions. New cooperation models across industries are being developed. However, in spite of some overall progress observed in this field, considerable effort is still needed to arrive at secure, user-friendly and efficient payment schemes across borders. Although network and communication technology facilitated interaction without frontiers, retail payment transactions do not reflect this move to any great degree. Available options, prices and regulatory environments still differ and play a major role in electronic payments (e-payments). For the Eurosystem, the way towards a full-fledged "domestic" payment landscape within the single currency area is of high relevance.

The ECB does not wish to promote e-payments per se, or single solutions. In fact, the Eurosystem's e-payments-related activity stems from its overall responsibility for the smooth functioning of payment systems and its objective to promote efficiency in payment systems. This responsibility requires, inter alia, the capability to anticipate structural changes and to assess their overall impact on the monetary order and the financial system. This anticipation is relevant to be able to act as a catalyst, and also as an overseer. As a catalyst in the field of e-payments, the Eurosystem's main goals are the fostering of efficiency and market integration. From an oversight perspective, the Eurosystem cares about the overall safety of systems, instruments and infrastructures.

1.2 Koenraad De Geest: Opening speech

Mr De Geest introduced a "workable" definition of e-payments for use in the context of the conference. The scope was defined as consumers' payments that were initiated, processed and received in new electronic ways, beyond "traditional" bank services, especially recent innovations in retail payments enabling e-commerce transactions (business to consumer – B2C) and e-payments between consumers (person to person – P2P).

Three major topics were suggested for discussion. The first and most important topic was the Single Euro Payments Area (SEPA) as a background for e-payment developments. Depending on the perspective, SEPA could be regarded as a challenge imposed on, or also as an opportunity for developing e-payment services across Europe. Second, what were the social benefits from introducing e-payments on a large scale – for instance, in terms of cost savings or convenience? What were the risks and threats that needed to be addressed, and by whom? Third, Mr De Geest invited the participants to discuss what the challenges for developing successful, sound and sustainable e-payment services were.

He presented a first observation on this last question, taken from a small survey among EU-25 e-payment service providers at the beginning of 2004 via the e-Payment Systems Observatory (ePSO). The acquisition of merchants, but also the convincing of consumers, were identified among the top three challenges. Also ranked as highly significant hindering factors were the lack of standardisation and of interoperability between different schemes. Surprisingly all other factors, especially regulatory barriers and security concerns, had remained relatively low. Verifying the ranking results of this small survey and deepening the understanding of the issues provided the motivation and starting point for the structure of the conference.

E-payments innovation might also raise challenges for policy-makers. The Eurosystem was active in the retail payments area, first of all as the issuer of euro banknotes. In the area of e-payments, it used the softer variants of regulatory power by acting as a catalyst and an overseer. When acting as a catalyst, central banks wanted to support market developments by improving coordination and transparency. They could stimulate discussions and initiatives regarding the long-run evolution of the euro area payment infrastructure, or they could trigger improvements in cross-border services for retail payments and their convergence with services provided at the national level, which was the case in the SEPA process. This was also the main focus of the ECB's activities in e-payments, as was particularly obvious today, given the focus of this conference and also other activities, e.g. the operation of e-PSO and cooperation with the task forces on e-payments and m-payments of the European Payments Council (EPC). The identification and addressing of potential risks and weaknesses was the rationale behind central bank oversight. In the field of e-payments, the central banks cared especially for services that touched core monetary functions. Therefore, issuers of money – also of e-money – needed to be sound and trusted. Such money-issuing institutions were subject to legal obligations and supervision, and could also be subject to oversight. One example of the oversight activities of the Eurosystem was the formulation of the Electronic Money Systems Security Objectives[1]. However, oversight activities in general were tied to the systemic and monetary importance of the infrastructure. As long as e-payment systems were in a state of development, the catalyst function would constitute the main area of central bank activity.

1.3 Monika Hartmann: What is new with innovative payments?

The ECB had set up a small team dedicated to the monitoring of payment system developments in Europe. The transformation of the former European Commission's ePSO Project into a website operated by the ECB had been completed. Ms Hartmann presented developments that might be regarded as "new" or "challenging" from a central bank perspective.

When looking at e-payments from a European perspective, the term "innovative" might mean something different in each country. What solutions were regarded as new depended on the already existing local infrastructure and on payment habits. European maps reflected a large variety of preference patterns for

[1] In May 2003 the Eurosystem published its expectations concerning the technical security approaches adopted by e-money schemes in the Electronic Money Systems Security Objectives report (EMSSO).

different payment instruments. Technical progress in IT and communications, as well as new combinations of services, were making the categorisation of e-payment schemes more and more difficult ("anything goes").

E-money was an example of the difficulties in market development that fundamentally new concepts had to face, but also an example of differing success stories (close-downs of card-based schemes in Denmark and Sweden versus relatively popular schemes in Belgium, the Netherlands and Luxembourg). More movement could be monitored in other "pre-funded" sub-categories such as virtual/scratch cards and personal online payments. Moreover, the first e-money licences had only been issued in 2003. Many of these new e-money institutions had started with pan-European ambition – and could mostly be regarded as competitors in the field of bank deposits rather than in that of cash. But the share of reported e-money transactions and outstanding e-money amounts had remained low thus far.

Ms Hartmann underlined that the difficult take-off of e-money did not mean that no progress was being made in e-payment services in general. Innovation was often "hidden" in the statistics on basic payment instruments, e.g. cumulative collection services, integrated payment solutions or mobile payments. The payment services industry had to face complex and dynamic challenges, such as the need for continuous technological renewal or the balancing of interests among user groups (distribution of costs, risks and benefits between payers and payees) and among network providers and strategic partners (cooperation and competition needs of payment networks). An additional political challenge was the achievement of market integration towards SEPA against the background of different payment cultures and infrastructures. The small ePSO survey among providers indicated that an encouraging number of e-payment services could be used for euro payments, even in a majority of schemes located outside the euro area. Many schemes included in the survey were operational in more than one country – however, this did not necessarily imply that their services could also be used for payments across borders, i.e. that they could facilitate settlements between accounts located in different countries.

1.4 Questions and answers

Question: What are the sources and the scheme composition of the e-money statistics presented (cf. Section 1.3 above)?

Hartmann: The figures were taken from ECB's monetary statistics (for the euro area, new figures are available roughly every six months) and from the Blue Book (for the EU-25, the most recent figures available are for 2002, a large majority of which is still chip-card based). Naturally, only schemes can be included that have been clearly categorised as e-money business and, as such, have duly reported their statistics.

2 Session I – The demand side / users

The objective was to obtain an overview of users' perspectives. How do consumers and merchants see the present situation of e-payments in Europe? Is the supply of services satisfactory? Comparing experience in different EU 25 countries, are there significant differences in customer demand for specific payment situations? Trends/outlook: do the speakers expect a pan-European convergence in demand factors by 2010?

2.1 Malte Krüger (University of Karlsruhe / PaySys Consultancy): Payments on the internet: the demand side

Mr Krüger presented selected indicators for quantifying the demand for innovative e-payment solutions. For business-to-consumer online purchases of physical goods, he did not see a pressing demand for new e-payment solutions. Mail order and telephone order (MOTO) systems for such goods were well established long before internet commerce began. The online market for digital content could become a driver of demand for innovative payment solutions. However, Mr Krüger did not expect any radical change here either, but rather that advertising would remain the main source of revenue. For sales among private persons (P2P), he saw a higher basis of demand for more variety in payment options, especially in countries where cheques and cash are the only broadly available payment instruments.

When looking at national payment transaction numbers and usage patterns in Europe, Mr Krüger did not see any sign of converging preferences so far. He also rejected the assumption that there was a "payment bottleneck" in e-commerce, at least for the case of Germany. Results of an online survey among German consumers (called IZV) indicated that a potential lack of a suitable payment method constituted an only minor obstacle to buying online (cited by 12.1% of the respondents as a reason for not buying physical goods and by 13.4% for not purchasing digital goods). According to the same survey, German consumers' trust differed substantially across basic types of institutions offering payment services: banks and (to a lesser extent) credit card companies have a fundamental advantage in trust compared with telecommunication companies and internet service providers. Mr Krüger announced plans to extend the IZV consumer survey to more European countries and said that he was looking for partners.

2.2 Robert Caplehorn (PayPal – an eBay company): How the demand can drive the supply: the case of eBay with PayPal

Mr Caplehorn underlined that PayPal was specifically designed for the internet, contrasting to card schemes and other basic payment instruments that first need adaptation to the online environment. The design would address specific needs of certain e-commerce segments (person to person and small business to consumer), i.e. offer high usability for merchants (especially small ones), combined with "easy-to-use" features for consumers, and include features for payments "without borders" ("compliance with SEPA right from the start") and for payments involving currency exchanges.

But, irrespective of PayPal facilitating payments in euro across borders, Mr Caplehorn reported that the large majority of transactions occurred at national levels. The payment methods preferred in different European countries depended strongly on the local legacy infrastructure. The online marketplace platform eBay, which is the owner of PayPal, left the trading parties a free choice of acceptable payment options (not all used PayPal services, although there was a symbiotic relationship between both companies).

There was interaction between PayPal and the banking industry, which was regarded – according to Mr Caplehorn – as a partner with complementary services (PayPal wanted to "leverage" existing infrastructure). Mr Caplehorn stated that PayPal wanted regulation, in the sense that it creates trust in the financial services industry. He expected e-payment services to remain a highly competitive market, with new dynamics coming from wireless broadband and mobile marketplaces.

2.3 Xavier R. Durieu (Eurocommerce): E-payments in the retail sector

Mr Durieu presented observations from the retailers' perspective. Consumers could normally not be forced to use a specific payment service, so that merchants tried to offer a wide range of choice that fitted to their customers' profiles and preferences; at the same time, these payment options should be as neutral as possible with respect to prices. Mr Durieu stated that no consistent comparison between different payment cultures could be drawn. He observed that the commercial sector was not prepared to serve the whole European market ("absence of internal market"), as a result of, inter alia, 25 different national legislations.

According to Mr Durieu, the example of e-money showed the importance of user-orientation and that new methods also needed time to be accepted (adoption often takes much longer than technical innovation and development). He also regarded cash as far cheaper than all cashless alternatives in some commercial areas and certain countries. Furthermore, Mr Durieu did not see any logic behind the pricing of some payment services, neither regarding countries nor regarding business sectors or merchant company profiles. For him, there was a lack of harmonisation of payment service prices within SEPA, for which consumers ultimately had to pay, as was reflected, for example, in a large share of non-negotiable interchange fees.

On security issues, he saw a need for small and medium-sized enterprises (SMEs) to have access to better information. Retailers had to pay for anti-fraud measures. In some cases, they were being confronted with the non-cooperative attitudes of some service providers, who might take drastic measures especially against merchants instead of offering information, help in investigations and system improvements. Mr

Durieu considered the liability shift for credit cards to signify the "forced" introduction of EMV[2], while he saw EMV's value reduced, since this standard was not used globally (e.g. in the United States).

His expectations for the future were that cash would be replaced further by e-payment services in many commercial areas. However, he had some doubts that this would lead to greater convenience and transparent pricing if the payments market was dominated by monopolies or duopolies. He was also sceptical with regard to the expectation that pan-European solutions will always turn out to be more efficient than national ones.

2.4 Dominique Forest (Bureau Européen de l'Union de Consommateurs – BEUC): E-payments – the consumers' perspective

Mr Forest set out that the coverage and service levels of the financial industry vary widely not only between old and new EU Member States, but also across the EU-15 (e.g. a penetration ratio per capita of between 20% and 90% in the case of bank accounts, compared with one of between 8% and 70% in that of credit cards).

He saw cash as the dominant payment instrument – at the national level, but to a high degree also for payments across borders. Old and new EU Member States showed high variations in their preferred ways of payment. Surveys for the EU-15 indicated that easiness of use was a far more relevant demand factor than safety and security, or risk of loss, for both national and cross-border payments. Payment situations within new media and cross-border payments involving non-euro area countries worked in favour of cards, but security mattered more. At the same time, consumer organisations were observing some reluctance among citizens to use completely new payment services, and also to pay cashless across borders. Mr Forest stated that traditions, habits and existing charging structures and conditions (including the bundling of products, liability rules, etc.) played a role as explanatory factors. Therefore, he expressed misgivings about the call for a maximum degree of harmonisation for this market, and demanded consumer protection in this area.

Mr Forest identified three areas where changes could result in an increasing demand for e-payments: first, a lack of transparency (e.g. of bank account charges), second, deficiencies of open competition due to the limited mobility of consumers (lock-in effects due, for example, to a complicated and expensive closing/changing of accounts – 2% of French consumers, for instance, changed their bank account every year, which involved closing costs of more than EUR 40 and estimated total migration costs of EUR 300) and, third, a shortage of trust in electronic online transactions (uncertainties with regard to, for example, liability, revocability, burden of proof, etc.). Mr Forest closed with the expectation that innovative e-payments could bring about more choice for consumers, in particular more competition and transparency, which would be beneficial for the development of SEPA.

---

[2] EMV is an international industry standard for debit and credit cards. The acronym was based on the initials of a consortium of three companies – Europay International, MasterCard International and Visa International – which founded a joint working group in 1994 to promote a global standard for electronic financial transactions. Today, EMV refers to the technical specifications adopted by MasterCard and Visa to ensure the global interoperability of chip cards, chip terminals, financial messages and related services.

3 Session II – The supply side / providers

The aim was to shed light on some state-of-the-art examples in Europe: challenges, cooperative and competitive strategies, trends and expectations. What is the role of non-bank providers in the e-payments area: competitors and/or new allies of the banking and card industry? Looking at a cooperative approach between banks and non-banks and mobile network operators (Mobipay), learning from the experience of an internet payment service provider (Firstgate) and reviewing the position of e-money institutions (E-Money Association, United Kingdom)

3.1 Thaer Sabri (E-Money Association, United Kingdom): E-payments without frontiers – issues and issuers

In the United Kingdom, there are four fully fledged licensed e-money institutions and over 20 small e-money issuers operating under a waiver granted by the Financial Supervisory Authority (FSA). The FSA has published a booklet to provide guidance on details of the application of the E-Money Directive, which was developed in close cooperation with the industry. Although business on the legal basis of the Directive started less than two years before the conference, e-money is already becoming a profitable business. Mr Sabri stated that at least three members of the E-Money Association (EMA) were making money; 15 active EMA members were estimated to have between 5 and 10 million active users of e-money products in the United Kingdom, signifying duplication during the last year.

Mr Sabri observed that, due to lower infrastructure investments, card-based and software-based e-money concepts were being replaced by account-based schemes. Therefore, most new schemes were no longer following the concept of imitating basic features of cash (with respect to "circulating" values that are stored locally in an electronic wallet on a chip card or a personal computer). However, e-money – according to Mr Sabri – also had some similarities to cash: fixed and comparatively low fees make it attractive for payments of small amounts. At the same time, Mr Sabri expected users' willingness to store large amounts as e-money for longer periods – without the purpose of immediately spending it – to remain limited. In this lack of a permanent savings function, he saw a major difference between e-money and bank deposits. Mr Sabri concluded that account-based e-money would therefore be a new form of e-money that should be treated similarly to card or software-based e-money products, and not as deposits.

Mr Sabri named a number of markets with growth potential for e-money solutions. These included online games, music downloads and ring-tone markets (in the United Kingdom, new chart songs in the form of ring-tones for mobile telephones were already being sold more often than the corresponding single CDs) as well as the capability of un-bundling subscriptions for online content like news and information, the growing popularity of online auctions and trading platforms, the specific needs of money remittances executed by migrant workers and mobile operators expanding mobile markets and payment services.

Regarding the European Commission's consultation on e-money and mobile operators,[3] Mr Sabri stressed that the regulation of similar prepaid payment services should be equal for different types of authorised

[3] http://europa.eu.int/comm/internal_market/bank/e-money/index_en.htm.

providers (ELMIs, banks, telecommunication companies) and that it should, at the same time, be neutral regarding technical settings. As major challenges for the internal market he saw the following issues: different definitions and application approaches to the E-Money Directive, diverging local compliance requirements despite the European passport for fully licensed e-money institutions (ELMIs) (e.g. with respect to consumer laws, money laundering, etc.) and a lack of acknowledged and efficient procedures for verifying identities online across EU countries. The EMA was working on issues of e-money business risk, not only from an operational risk and IT perspective. Mr Sabri offered cooperation with the ECB on the terms of reference for the Electronic Money Systems Security Objectives.

Mr Sabri explained why relations between ELMIs and banks were of concern for the efficiency of e-money products: e-money conditions and usability were sensitive to available interfaces with the existing banking infrastructure (especially with respect to the loading of e-money, redemption facilities, liability issues and bank charges).

3.2 Iván Clemente (Mobipay, Spain): M-payments – cross the frontiers

Mr Clemente stated with reference to the title both of the conference and of his presentation that, before dealing with the crossing of national frontiers by e-payments and m-payments, other types of frontier needed to be addressed first, within and also across industries. This was the case for Mobipay in Spain. Mr Clemente presented some market figures for mobile business and m-payments. He felt that such market estimates were not always easy to interpret ("like Japanese"), depending on the types of indicator that were being used. Some figures showed vast potentials for mobile business, some of which had materialised (e.g. in the form of high turnovers for short messages for ten years). In comparison with the evolution of such large mobile markets, Mr Clemente found that there were only a few m-payment initiatives that had managed to survive, i.e. to develop beyond the critical infant stage to become permanent market reality.

Mr Clemente discussed some arguments in favour of new schemes, e.g. in terms of convenience and overall economic efficiency. However, he also identified some fundamental obstacles to any introduction of a new m-payment scheme. Initiatives needed to start with realistic concepts and expectations on the size of eligible user groups (leverage and combination of market shares and marketing effectiveness). These were related to the market strategy for establishing enough connection points to communication channels and an interoperability with the existing basic payment infrastructure. Mr Clemente saw technical cooperation between banks and telecommunication companies as the right approach to achieve this universality. He stated that such technical cooperation and commercial competition existed in parallel – a typical situation of "co-opetition", a well-known phenomenon in the telecommunications industry. He referred to specific success factors for m-payment services in two-sided markets, where the roles and functions of payers and payees are split. Once a critical mass of users had been attained – which often took time – the door would be open for developing an "umbrella" of diversified services (examples being Octopus, Hong Kong and PayPal).

Following this logic, Mobipay Spain had brought together the national financial industry (92 partners), mobile operators (3) and payment processing companies (3) to develop a common technical platform, i.e. "an open standard that allows banks and mobile operators to develop in competition products and services". The services included purchase services (B2C), payment transfers (mobile top-up, P2P payments), financial queries and other operations (e.g. acceptance of tax declarations). A key prerequisite for building-up such initiatives was the ability to combine the interests of all parties involved. For Mr Clemente, this was also applicable to the European dimension. He stated that the average user already had approximately 15 permanent contractual relationships with local banks, service and communication providers. He concluded that this might limit users' willingness to sign additional commercial contracts only for making payments transactions. Users' reluctance to subscribe might apply to local payment services, but even more to services enabling cross-border transactions (with even lower usage frequency). Therefore, he suggested that national e-payment and m-payment systems which had already reached critical mass should be made interoperable, allowing users to "cross the frontiers".

3.3 Fabian Siegel (Chief Technology Officer, FIRSTGATE Internet AG): E-payment in Europe – a payment scheme's perspective

Mr Siegel presented the business approach of his company and discussed factors he considered to be critical for success. The service "click&buy" was designed to facilitate ways to pay online for digital content. It was first launched in Germany in 2000 and today covered more than 3 million consumers and 2,500 merchants across Europe. Mr Siegel stressed that the service was not a new payment instrument itself, but that the scheme operated on top of already existing and upcoming payment solutions on local markets. It offered its users a flexible "one-fits-all" concept by integrating a choice of different payment options into a common portfolio. It helped to lift technical, legislative and infrastructural barriers to European distribution by providing for local customer care. Mr Siegel considered the partnering concept to be one of the most significant factors for obtaining critical mass in the market for integrated payment services. The concept was based on an alliance of partner companies that shared an open standard for achieving interoperability between different payment schemes at both the local and the international level.

Mr Siegel saw several issues that needed to be addressed in the regulatory framework. He found that the compliance of business models with local legal environments was not always assured, which added uncertainty and increased the adoption costs of any local expansion envisaged. He felt that minimum standards for consumer protection in the area of e-payments would be welcomed by the services industry, but that too much regulation on identification procedures for low-value transactions needed to be avoided. He suggested in this context that money laundering requirements could be more differentiated according to application areas.

Mr Siegel expected that a differentiation between micro-payments and macro-payments would no longer be needed in future. He had noted a further convergence of communication channels and e-payment-related services. In e-commerce, he felt that a lack of attractive content that was worth spending money on might be an issue in some business areas – but that payment solutions themselves were not (and would not be) a bottleneck.

3.4 Panel discussion among speakers in the first sessions and questions from the audience

Question: MasterCard is introducing new charging rules[4]; do the panellists expect that this will have an impact on demand for credit card payments?

Durieu: This change has been long awaited by merchants; each service has a price which should be known; however, this is not expected to help much in increasing competition; users will interpret the charge as an additional cost, and will only accept it in some business areas.

Forest: The impact of this decision on the demand is expected to be limited, due to lock-in effects and limited competition in the areas where it will be applied.

Question: Are banks only passive spectators in the e-payments business area?

De Geest: Their payment services and infrastructure are very much the basis for any type of innovative scheme. Banks are active in the building-up of SEPA. However, banks are facing new competitors in payment services – not only e-money institutions, but also various types of non-bank service providers. In order to harmonise the regulatory regime, the latter group, too, will be regulated and licensed, according to the New Legal Framework (NLF) envisaged by the European Commission.

Lelieveldt (Dutch Banking Association): Banks have their active share in innovations of retail payments. For example, Dutch banks offer a number of innovative solutions, including e-money, online banking and m-payment services. Some offer proprietary solutions, others use common standards that have been developed, e.g. a new standard for integrated bank payments via merchants' websites has just been agreed by some major banks.

Question: There seem to be differences in the national fee structures for PayPal services. How does this fit in with European Parliament and Council Regulation (EC) No 2560/2001 on cross-border payments in euro, according to which the charges for cross-border transfers in euro have to be the same as at the national levels?

Caplehorn: PayPal is aware of the issue; it may be late in applying the Regulation in some areas and countries, but is already preparing the necessary adjustments.

Question: Are merchant commissions of PayPal and interchange fees of the credit card industry appropriate, especially with respect to the cost of payment guarantees, chargeback and fraud risks?

Sabri: Credit cards and other payment schemes can set prices according to their market position and strategy. However, the underlying market shares are not fixed. Innovative payment services offer

---

[4] MasterCard International announced in September 2004 that the MasterCard Europe Board had decided to abolish the so-called No-surcharge Rule in the EEA as from 1 January 2005. The No-surcharge Rule traditionally had prevented a merchant from directly passing on the cost of accepting MasterCard payment cards to its customers. The abolition of this rule would allow merchants themselves to decide whether they intended to surcharge any customers.

alternative products that show a variety of usage risk characteristics (e.g. chargeback features or recovery options in case of loss). Ultimately, the distribution of cost and risk factors is an element of negotiations between the payer and the payee.

Caplehorn: For credit cards, there will be a liability shift in 2005, which will work in favour of systems that offer merchants a higher level of protection against disputes.

Question: What is the difference regarding regulation between e-money schemes constructed like PayPal and bank deposits?

Caplehorn: Regulation is a feature of risk. By handling small amounts for payment purposes, ELMIs do a specialised, restricted business. They are not allowed to pay interest on the amounts kept as e-money, nor to issue e-money against credit. They also have to comply with strict investment rules (outstanding values can only be held in risk-free liquid assets). In this sense, ELMIs are only allowed to offer "one half of the bank equation" (keeping money without lending it or paying interest on it). Therefore, the framework to be applied to e-money is a reflection of the lower risk exposure in comparison with the full set of traditional banking services.

Question: Are consumer demand for e-payment services and consumers' payment preferences converging across Europe? This would make the introduction of standards not only easier but also more effective.

Forest: No.

Krueger: There are initiatives by the European banking industry, e.g. to create standards for online credit transfers; in Austria, a standard for real-time online transfers has been implemented. Such initiatives could lead to such convergence.

Question: How can one reconcile contradictive studies on whether or not there is a lack of e-payment solutions (e.g. studies on behalf of the European Commission/Internal Market say "yes", while Malte Krueger/IZV says "no")? Payment is only half of the equation, delivery is also an issue.

Durieu: For merchants, there are many decisive factors apart from, and sometimes also related to, payment issues. Delivery issues are particularly relevant and challenging, and can be solved in many different ways (e.g. delivery or pick-up services). A bottleneck might occur whenever a retailer is not willing, or unable, to accept a payment instrument that is accessible to one of his potential customers.

Question: The integration of online banking is making progress, e.g. the implementation of the ePI[5] standard in countries like Finland and Austria. But this implementation is especially difficult in large and fragmented markets like Germany, where bilateral contracts are not an efficient option due to the number of market participants. Could this lead to a new interlinking structure between credit institutions,

---

5 ePI is a standard that was developed by a working group of the European Committee for Banking Standards (ECBS) and SWIFT. ePI enables and supports different ways of initiating and executing a payment. It defines a set of minimum data to facilitate straight through processing.

following an issuer-acquirer-model of cost and revenue-sharing similar to the interchange fee of the cards industry? Would this be accepted by the users and regulators?

Krüger: Standards like the ePI are easier to realise in less fragmented markets. From an economic point of view, there are payment segments where interchange fees may be justified. Especially in two-sided markets, interchange fees are a necessary, traditional model for solving conflicts of interest and balancing cost and revenue within the system. This has been long accepted in the telecommunications industry, for instance, where the caller usually pays for a call.

De Geest: At the end of the SEPA process, a split into small and large countries should no longer be an element of relevance.

Durieu: People can join existing schemes and implicitly accept to pay, even without a written contract (e.g. road toll schemes). Retailers are generally willing to pay for the acquirer's service function, but will not necessarily accept bearing the cost of bonus points, insurance and gifts at the issuing side, without consumers even being aware of this.

Adolph (InterCard): The question of the necessity of interchange fees for two-sided markets remains open. Direct debit schemes work without interchange fees.

4 Session III – Security, fraud and identity protection for online transactions

The aim was to present expert views on the urgency of introducing protection measures against identity fraud in the context of e-payments in Europe. With respect to the allocation of risk, liability and the cost of security measures, does the market provide "fair" and sound solutions for all groups of stakeholders?

4.1 Rafaël Rondelez (Deputy Head of the Crimes against Property and Financial Crime Unit, Europol): E-payments without frontiers

The European police agency, Europol, was founded on the basis of the Maastricht Treaty. It serves as an "information broker" between national law enforcement agencies. It's main tasks are the exchange of operational data on crime and the development of specialist knowledge in certain areas of crime. One of these areas is fraud in non-cash payments.

As a first topic, Mr Rondelez addressed new types of attacks that are being monitored by financial crime investigators in the area of e-payments. He mentioned skimming as a cross-border phenomenon of increasing intensity, as well as wire-tapping and hacking of merchants' databases in order to collect and misuse credit card and account information. This, according to Mr Rondelez, was leading to many cases of credit card blocking in the United States, which were also indirectly affecting the EU. Mr Rondelez saw phishing as an old phenomenon that has been adapted to new communication channels, but that also continued to exist on traditional channels, such as that of conventional mail. He observed that social engineering attacks were generally easy to start and sometimes alarmingly successful among "naïve" users. Viruses and Trojan horses could be used for spying out information on users' PCs relating to the latters' access to bank accounts and payment services.

Mr Rondelez expected skimming of cards to remain a relevant fraud issue – also after the introduction of EMV. As reasons for this expectation he cited the argument that as long as the magnetic stripe was installed as a fallback solution, the new security features could be circumvented. Furthermore, he saw an issue of international interoperability, since many countries were not adopting the EMV standards.

Europol had found that the online market for stolen identities and card data ("cardening") could be regarded as truly international; however, the origins were mostly located outside of the EU area. Therefore, Europol and other authorities had no impact and only little room for action outside the EU in this area of crime.

Mr Rondelez introduced a concept to differentiate two dimensions of protection and prevention. At the first level, he saw room for internal measures within a company or system, as well as external measures to influence the environment of a scheme by joint measures; the second level differentiated between IT-related action and measures that tried to influence the "human factor". Mr Rondelez saw a lack of training people on security issues at different levels, especially among merchants and consumers. But he also identified an urgent need for an exchange of expert knowledge between prosecutors, other public institutions and payment experts. Europol offered pan-European training facilities in order to enhance education and training on payment security, but the help and participation of the payments industry was regarded as essential for the success of this initiative.

4.2 Riten Gohil (Executive, Association for Payment Clearing Services, United Kingdom): Information, identity and the internet – fighting card crime in the information age

Mr Gohil presented findings and activities of the Association for Payment Clearing Services (APACS), an umbrella body of the UK banking industry. According to his observations, remote identification via open communication networks with static authentication techniques did not in general provide a sufficiently secure environment for making legally binding or financial transactions. The most prominent example thereof, for Mr. Gohil, was card-not-present (CNP) fraud via mail, telephone or internet orders. It amounted to GBP 116.4 million in the United Kingdom in 2003, and the problem seemed already to be spreading to other countries. Mr Gohil did not see an overnight solution for this issue, as there was no generally accepted way of confirming the identity of the people dealt with. As a consequence of this issue, the liability and payment risks in the event of fraud had to be borne and managed predominantly by the merchants. He identified an even greater risk in cross-border transactions, due to different legal situations and the greater difficulty of acquiring sufficient and reliable knowledge on customers.

APACS had launched a fraud migration project on CNP and identity fraud. It contained generic education programmes with training packages to raise awareness and to foster the use of alternatives that are considered to be more secure. Measures such as the gradual introduction of Chip and PIN as well as stronger issuer detection systems and retailer awareness in the United Kingdom had, according to Mr Gohil, caused card counterfeiting to decline somewhat.

As most relevant message to be given to the merchants, Mr Gohil stressed that payment authorisation was not the same as a payment guarantee. Mr Gohil saw many ways in which merchants could reduce their risks by introducing common security features to better identify the users, e.g. address verification services (AVS), card security codes (CSC), which had already caused fraud losses of major online retailers to fall by over 70%. Card schemes had also introduced 3D Secure technology – known as "Verified" (Visa) or "SecureCode" (MasterCard) – that provided for stronger authentication in e-commerce payments. Merchants could benefit from the liability shift that had been offered as part of the implementation. Over the longer term, the banking industry was exploring the prospect for utilising hand-held tokens to provide stronger authentication in electronic payments.

Overall, Mr Gohil considered identity theft and the financial fraud related to it as constituting one of the major challenges that needed to be addressed immediately in the United Kingdom and throughout Europe. He said that merchant awareness and education were crucial in this respect, and that APACS had developed training materials from which merchants might benefit. In 2005, merchants would be able to benefit from an e-learning solution for preventing fraud in the e-commerce environment. More details were available in the website: www.cardwatch.org.uk.

4.3 Sebastiano Tiné (DG Internal Market, European Commission): Preventing fraud in online transactions

Mr Tiné provided reasons why fraud in online transactions was of concern to the European Commission. First, the Commission felt that the volume of fraud in the EU was "not negligible". Second, the phenomenon seemed to be international, with a significantly high proportion of cross-border transactions affected. Third, it had become an area of activity for organised crime and was used to fund criminal activities. Fourth, fraud could undermine consumers' confidence in online transactions in critical ways. Finally, Mr Tiné considered that such fraud also needed to be addressed in order to obtain a secure and efficient SEPA.

There have been initiatives to harmonise legislation on computer-related crime since 2001, but – according to Mr. Tiné's report – they have not yet been fully implemented. The European Commission launched a project called the Fraud Prevention Action Plan (2001 – 2003), which also included measures related to e-payments (technical improvements, information exchange, cooperation and training). The Commission published a study and held a conference on the security of e-payments[6] in September 2003. The main results were: secure and economically feasible e-payment solutions exist, but "traditional" solutions are still used more widely; more advanced technology is being rolled out; consumers are not well-informed on security issues. Mr Tiné saw a risk of increasing numbers of attacks, especially for

6 http://europa.eu.int/comm/internal_market/payments/conference_en.htm.

online-banking. The core problem identified in that area was identity theft. The cleaning of a compromised identity could take several hundred working hours.

The new Fraud Prevention Action Plan (2004 – 2007) continued the concept of working in public-private partnership against fraud. According to Mr. Tiné, it is meant to create "no policy yet, but ideas for countermeasures". These ideas would be especially elaborated and discussed in the Fraud Prevention Expert Group, which intended to use databases more widely, to work on fraud awareness and to facilitate a reporting system on fraud-related cases for all parties affected.

4.4 Panel discussion and questions from the audience

Question/Comment: The added value of EMV regarding security will be higher than stated by Mr Rondelez. Visa has already announced plans to issue a "chip only" debit card.

Question: How can the skills of all parties involved be enhanced? An exchange of technical experts might be envisaged.

Caplehorn: On-site training is an approach that serves both sides, public authorities and providers (e.g. PayPal organises educational workshops with Scotland Yard at the PayPal Centre in Dublin every year).

Rondelez: Pan-European education programmes are needed – not only training ("conferences will teach us nothing"). Creating a number of experts through hands-on training and experience is the only effective way to obtain a multiplier effect at the regional level ("train-the-trainers" approach). For this, the active participation of the industry is needed. Europol and the European Commission can only act as catalysts.

Question: To what extent can card-not-present (CNP) fraud be related to the fact that this is an "unnatural environment" for a payment instrument that was initially designed for face-to-face payments? Does the different usage environment lead to a higher percentage of fraud cases?

Gohil: 10% of all credit card transactions in the United Kingdom are already initiated online – and the share is rising further. In general, fraud figures are roughly in line with overall turnover figures on the internet. The integrity of the card schemes in general is not at risk, as long as the flows to criminals can be kept under control. The card industry has been working on secure concepts for card-not present-payments since the early days of e-commerce via the internet. These solutions have to meet specific requirements to be efficient and easy for broad usage. Support for merchants is critical, because the risk of loss is existential for them.

Tiné: It is often argued that the responsibility lies with the issuer, but fighting against fraud is a collective responsibility. Anti-fraud initiatives have to be built in cooperation and need to comprise both technical and human risk factors.

5 Session IV – Costs and efficiency of different payment instruments

The aim was to provide academic, central bank and commercial views on the efficiency, cost and pricing of different payment instruments. The experts were invited to present, compare and discuss their findings.

5.1 Leo van Hove (Professor, Vrije Universiteit Brussel): Cost, pricing and efficiency of payment instruments

Prof. van Hove started with the statement that cash should be made more expensive. He saw the marginal costs of access to cash as being at zero for many consumers, meaning that inefficient behaviour, e.g. an excessive use of ATMs, was not punished. Prof. van Hove thought that fixed annual fees for bank accounts left the real cost unnoticed, so that pricing structures were sending the wrong signals for usage to consumers. As a feasible way to reinforce approaches of cost-based pricing for payment services, he would recommend the introduction of fees and charging structures that were based on the number of transactions. As the outcome, he would expect that price-sensitive consumers would move toward less costly instruments.

Prof van Hove expected the greatest resistance against such measures to come from the central banks, especially if conditions for the use of cash were affected. However, he had noted that some central banks might be changing their minds. He mentioned research results on the social cost of payment instruments published by De Nederlandsche Bank (DNB) and similar studies currently conducted by the Banque Nationale de Belgique/Nationale Bank van België (BNB/NBB). DNB had made statements in favour of cost-based pricing.

Regarding the introduction of new pricing structures, he saw the banks as being caught in a prisoner's dilemma. No one would like to be the first to move to a new, transaction-based pricing scheme; only a joint move would solve this problem, but this was often prevented by competition authorities, as shown by some recent examples.

He also referred to a case where a cost-based pricing initiative of a single bank was "made impossible by law": in November 2003 Fortis Bank had introduced a charge of EUR 0.06 on cash withdrawals at their proprietary self-banking terminals in Belgium, but was stopped by government intervention (Ministry of Consumer Affairs). A differentiation between different types of withdrawals could be made, but a large number of "free" transactions had to be included as a lump sum in the account fees.

5.2 Gabriela Guibourg (Economist, Sveriges Riksbank): Do prices reflect costs in the Swedish payment market?

Sveriges Riksbank has published results of a study on prices and costs of various payment instruments. The aim was to investigate to what extent prices reflect underlying costs since these prices are likely to be important factors determining the use of different payment instruments and thus overall efficiency in the retail payment system.

Ms Guibourg found that all European countries performed well in efficiency studies if indicators were used that focused on the migration from paper-based to electronic payment instruments. Referring to national payment habits as the starting point for cost studies, she noted that Swedish consumers used more cash and fewer cards than the citizens of other Nordic countries.

The study by Sveriges Riksbank had been conducted with the help of four major Swedish banks that together covered more than 90% of the Swedish retail banking market. The study had been initiated to investigate the connection between variable costs (approximating marginal costs) and variable fees. The outcome of the study, according to Ms Guibourg, was the following. Variable fees gave virtually no information on the underlying cost structure for payment services to consumers. More information was only available for business customers. On average, each of the four banks had to bear annual losses of approximately EUR 55 million that were caused by cash distribution. Credit cards were being used for cross-subsidisation but, in contrast to other Nordic countries, Swedish banks did not charge for cash withdrawals.

5.3 Ken Howes (Director, Edgar, Dunn & Co.): Cost and efficiency of different payment instruments

Mr Howes saw economic benefits stemming from cash substitution, but also a lack of alignment regarding perspectives and major goals. He argued that, as long as there was no end to cross-subsidisation, harmonisation was difficult and cost efficiency hard to achieve.

Mr Howes found that consumers regarded cash (and also payment services in general) as a public commodity, and tended to ignore the costs incurred. He also thought that some regulators fostered such an attitude, which he considered to be a "public misconception". He referred to the case of Ireland, where a stamp duty on debit cards has been introduced – making the use of cashless alternatives even more costly in comparison with cash. In his experience, merchants did not know their "real" effective cost of different payment transactions. He proposed giving communication a prominent role, in order to ensure a better recognition of the payment services delivered.

With respect to the introduction of cost-based pricing concepts, Mr Howes identified several obstacles, some of which stem from the payment industry itself. One of these, in his view, was the tendency to "under-price" newer systems, especially during the introduction phase. More generally, he regarded the current practice of cross-subsidisation between different instruments and customer/user groups ("relationship pricing") as the major issue.

Mr Howes referred to samples among banks which indicated that the net contribution of different services to profitability varied significantly. He found that most banks did not measure profits and losses from different payment instruments at all. For merchants, a case study by Edgar, Dunn & Co. indicated that, above an amount of USD 12, debit cards seemed to be more efficient than cash. However, the true costs seemed to remain widely unknown, as did the answer to the question as to how to set a better, more consistent pricing system. Mr Howes concluded by stating that, for a migration to a payment environment with optimised cost efficiencies, all stakeholders would have to be involved.

5.4 Panel discussion and questions from the audience

Question/Comment by Mr Krüger: Cost-based pricing is not applicable in two-sided markets, as a bundling of charges for account-related services is not necessarily inefficient. How robust are the cost studies regarding the basic data available?

Guibourg: In the study by Sveriges Riksbank, only the banks' private costs were included, not the costs of other stakeholders. Market imperfections, factors of two-sided markets and other network effects were left out, as was the question as to how an optimal interchange fee could look like. But these issues will be examined further in an ongoing project.

Van Hove: The data used for the studies are the best available. Further studies are strongly encouraged. One fundamental caveat is that such studies normally focus on cost factors only. However, what matters for the definition of a consistent strategy or policy on the relative use of different payment instruments is not only the relative cost, but also the unique benefits.

Question/Comments: Apart from the identification of the existence of bundled charges, have there been more in-depth investigations into the composition of these bundles? An improved insight into the logic behind the connection between costs and prices would already be an improvement.

Van Hove: Bundling might be acceptable for some payment instruments, as long as the desired effects can be reached. For example, Belgium took out the cheque from the bundle, which helped make the cheque quickly disappear. In cost-based pricing, prices do not necessarily need to be equal to costs. What is crucial is that the relative prices are "correct" in the sense that payment instruments which are more expensive for society are also more expensive for users.

Howes: In Europe, the bundling of prices for bank services often looks as if it is driven purely by chance. One reason is that there is also internal competition within banks, i.e. between different units responsible for different payment products and services. This also makes it difficult to assess the real costs of cash to merchants and banks.

Question/Comment by Mr Forest: He is sceptical with respect to comparisons between cash and non-cash payment instruments. He stresses that social aspects of cash need to be included, e.g. access for everyone, including citizens who do not have a bank account. He is not sure how potential cost savings from an optimised service pricing strategy would be shared, and especially to what extent benefits would be passed on to consumers.

Question/Comment: The choice of a payment instrument is not based purely on rational behaviour. Payment services are a business area with emotional and cultural aspects.

Question: What is the connection to SEPA: can a free allocation of prices based on competition be achieved if there are already substantial difficulties at national levels? How can the prisoners' dilemma be avoided? Is there a need for correction of public policy approaches?

De Geest: Public authorities try to enhance the social optimum, which is very hard to define. A situation marked by a prisoner's dilemma and largely fragmented payment markets might indeed ask for guidance from politicians. The preferred way is an evolutionary one, with central banks critically analysing inherent problems and encouraging and fostering changes in behaviour.

Howes: If cash is really a public service, the cost should be borne by the government. Cost studies are already becoming more sophisticated, but only few of them try to cover the interests of all the groups of stakeholders involved (many are conducted on behalf of single interest groups).

Question/Comment: Caution should be taken with respect to policy conclusions from cost studies. In the study by De Nederlandsche Bank, for instance, the credit card turned out to look like the most inefficient payment instrument and would therefore need to be abolished, theoretically even before other instruments. Nevertheless, central banks should promote more efficiency in current payment systems.

6 Session V – Public authorities and policy issues: standards and regulation of e-payments in Europe

The aim of this session was to discuss the development of e-payments in the context of SEPA, with specific attention to the roles of the regulatory framework, standards and interoperability.

6.1 Terence Dirienzo (Chairman of the Credit Transfer Working Group, EPC)

Mr Dirienzo stated that commercial banks were not against regulation – if it was used as facilitator of competition, designed even-handedly and conducted as lightly as possible. He considered standards to be a confusing area, not only in the financial industry. The key issue for SEPA was for him not standards, but interoperability. He referred to the example of Apple computers as a strategic approach based on interoperability rather than on standards. Mr Dirienzo felt that in some cases standards might even prevent interoperability.

Mr Dirienzo then discussed major challenges of the banking industry with respect to establishing straight-through processing (STP). This would require re-tailoring business processes, establishing networks and data standards. For him, STP also implied that problems were being transposed along the value chains, and were becoming more costly to solve along the way. Therefore, he considered that processing and value chains had to be shortened in a safe way.

Mr Dirienzo reported on the progress of the EPC's work on establishing retail payment instruments for common use across Europe. He found that compromising on standards was not best in the context of

SEPA, so that the EPC was working on new approaches, especially on common schemes for credit transfers, direct debits and cards.

6.2 Thaer Sabri (Chief Executive, EMA, United Kingdom)

The breaking-up of the payments market, according to Mr Sabri, had only started recently, with the introduction of ELMIs. He now felt that the New Legal Framework (NLF) would add another group of regulated competitors, i.e. payment institutions. All three types of institutions had different levels of regulation, while trying to serve similar and overlapping markets. Mr Sabri was of the opinion that the E-Money Directive needed improvement and a more consistent implementation. He was not in favour of a complete deletion, but the ELMI Regulation needed to fit in with the NLF. Overall, Mr. Sabri claimed that operational risk should be at the core of every discussion on regulation. Regarding the establishment of standards on innovative e-payments, he felt that it was being too early for such activities.

6.3 Fabian Siegel (Chief Technology Officer, FIRSTGATE Internet AG)

On the NLF, Mr Siegel would prefer having "no regulation at all", except for minimum standards for soundness and the opportunity to obtain a European passport that would make it cheaper and easier for his company to offer services across Europe. He did not feel that the regulatory framework for his industry was too tight. He observed that standards were in practice only used if they were already established and enforced (a "wait-and-see" attitude led to chicken-and-egg problems in the application of standards). For him, regulations often had a tendency to prevent ease of use, which was very critical for his business. Therefore, his company had decided to cater mainly for consumer requirements and to develop and implement its own standards, instead of waiting for imposed ones.

6.4 Sebastiano Tiné (DG Internal Market, European Commission)

Mr Tiné explained that an EU-wide harmonisation of the retail payments market was the overall goal of the European Commission's initiative to set up a New Legal Framework for payments in the single market.[7] Further objectives were facilitating efficient payment services, the opening of the payment market to new competitors (with a "same risk – same rules" principle); the harmonisation of liability rules; the care for consumer confidence; technical neutrality and a simplification of the regulatory framework through the establishment of a single "rule book".

6.5 Denis Beau (Directeur adjoint, Banque de France)

Mr Beau summarised the obstacles for the further development of European e-payment services as follows. The electronification of payment services was well advanced in Europe, but many new payment

---

7 Background information can be found at: http://europa.eu.int/comm/internal_market/payments/framework/index_en.htm.

solutions seemed to be confronted with indifference by their potential users. In order to avoid a situation where there might be "solutions in search of problems", he felt that suppliers had to investigate thoroughly what the customers really needed. The lack of security (real or perceived) of payment services provided on the internet was, from Mr Beau's perspective, a good illustration of misconceptions on the supply side that had made it impossible for a number of proposals to meet significant demand. Cost-of-use and ease-of-use were, in his view, other important attributes of market demand that may not have received the attention they deserved to ensure market success.

Mr Beau also raised the question as to whether an inappropriate market structure and regulatory framework might be relevant factors in preventing innovations from prospering. He felt that the discussions during the conference had shown that providers had in some areas not been in a position to exploit economies of scale because of barriers of different types, the most important of which was the lack of standardisation and interoperability of payment processes. He also considered the lack of uniformity of the legal environment from one EU country to another to be playing a role, but to a lesser extent.

Mr Beau underlined that it was not only necessary for market players to agree on standards, since there were already many approaches. What he considered to be equally essential was their enforcement, i.e. market discipline in using them. In that context, he also saw a role for public authorities in support of market participants' efforts. He welcomed the European Commission's progress in developing a harmonised legal framework for the payment services industry in the EU.

For the central banks of the Eurosystem, Mr Beau saw one area of contribution to the fostering of cooperation between market players in respect of, for example, standardisation and interoperability issues (catalyst for change). In addition, the national central banks also had an oversight role. Both roles were connected to their statutory responsibility of ensuring the smooth functioning of payments. Mr Beau explained that this was the reason why the Banque de France participates in the French interbank standardisation body "CFONB" and why it was formulating oversight expectations with respect to the safety of payment instruments.

6.6 Johannes Priesemann (Head of the Payment Systems Policy Division, ECB)

For Mr Priesemann, the regulation of a network industry started with a vision for a better world ("utopia"), but he thought that certain hazards also need to be investigated, in order to avoid arriving in a rather negative new world ("dystopia"). From both angles, he believed it makes sense for a central bank to look ahead and assess the implications of structural changes. Regarding the relative cost and benefit of payment instruments, he thought that cash might still be needed a while longer, at least as long as there were not yet enough symmetric payment systems for relevant purposes – including electronic schemes that do not necessarily require identification on both sides, e.g. due to limited amounts.

Under the New Legal Framework, Mr Priesemann felt that the speed and spectrum of innovation in the payments market might increase even further. He saw payment service providers facing the double challenge of, at the same time, managing innovation and complying with regulation, with the regulatory environment also changing fundamentally ("integration of regulation"). He saw an ongoing trend toward a segmentation of banking services, with service bundles being split up and outsourced. He considered it difficult to assess and quantify, and even more difficult to regulate, the different risks involved in such distributed business models. In addition to Mr Beau's description of the oversight standards set by central banks, Mr Priesemann mentioned the E-Money Systems Security Objectives (EMSSO) as an example for the communication of central bank expectations.

6.7 Questions and answers

Question: With respect to the objectives of the New Legal Framework for payments in the internal market, does the European Commission intend to adjust capital requirements according to the operational risk involved in different activities?

Tiné: The main aim of the NLF is to harmonise licensing practices in the retail payments business. It is difficult to find common denominators for all types of payment providers.

7 Closing remarks by Koenraad De Geest

Mr de Geest found that, since the definition of the Lisbon agenda, technological advances in the area of e-payments had accelerated in many respects. He stated that too much emphasis had perhaps been given to e-money over the past decade, while the scope of relevant innovation appeared to be wider. Electronic access products, in particular, were becoming more attractive and versatile, as was demonstrated at the conference. Mr de Geest saw the role that mobile payments will play in the future as still being open. He referred to the progress needed in consolidating the regulatory framework for payment services, for which he considered common interpretation and enforcement to be essential ("regulations, instead of directives, where needed"). At the same time, regulation should always follow a risk-based approach. On the costs of payment services and the allocation of prices, he spoke out in favour of further work. He closed the conference by thanking all speakers, participants and the organisation team.